

Village of Casnovia
Kent and Muskegon Counties, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended June 30, 2008

CONTENTS

	<i>Page</i>
INDEPENDENT AUDITORS' REPORT	3
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements:	
Statement of net assets	4
Statement of activities	5
Fund financial statements:	
Balance sheet - governmental funds	6
Statement of revenues, expenditures, and changes in fund balances - governmental funds	7
Statement of net assets - proprietary funds	8
Statement of revenues, expenses, and changes in net assets - proprietary funds	9
Statement of cash flows - proprietary funds	10
Notes to financial statements	11 - 18
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule:	
General Fund	19 - 20
Major Street Fund	21

INDEPENDENT AUDITORS' REPORT

**Village Council
Village of Casnovia, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the remaining fund information of the Village of Casnovia, Michigan, as of June 30, 2008, and for the year then ended, which collectively comprise the Village of Casnovia, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Casnovia, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the remaining fund information of the Village of Casnovia, Michigan, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information, as listed in the contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village of Casnovia, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Siegfried Crandall P.C.

October 15, 2008



1958-2008

BASIC FINANCIAL STATEMENTS

Village of Casnovia
STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 103,967	\$ 91,089	\$ 195,056
Receivables	<u>14,477</u>	<u>4,493</u>	<u>18,970</u>
Total current assets	118,444	95,582	214,026
Noncurrent assets - capital assets, net of depreciation	<u>299,586</u>	<u>34,241</u>	<u>333,827</u>
Total assets	<u>418,030</u>	<u>129,823</u>	<u>547,853</u>
LIABILITIES			
Current liabilities:			
Payables	15,996	-	15,996
Note payable	<u>7,500</u>	<u>-</u>	<u>7,500</u>
Total current liabilities	23,496	-	23,496
Noncurrent liability - note payable	<u>55,000</u>	<u>-</u>	<u>55,000</u>
Total liabilities	<u>78,496</u>	<u>-</u>	<u>78,496</u>
NET ASSETS			
Invested in capital assets, net of related debt	237,086	34,241	271,327
Restricted for public works	10,809	-	10,809
Unrestricted	<u>91,639</u>	<u>95,582</u>	<u>187,221</u>
Total net assets	<u>\$ 339,534</u>	<u>\$ 129,823</u>	<u>\$ 469,357</u>

See notes to the financial statements

Village of Casnovia
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating/ capital grants and contributions</u>
Governmental activities:			
Legislative	\$ 9,529	\$ -	\$ -
General government	50,524	2,305	-
Public safety	523	522	-
Public works	90,349	-	35,004
Interest on long-term debt	<u>3,345</u>	<u>-</u>	<u>-</u>
Total governmental activities	154,270	2,827	35,004
Business-type activity - sewer	<u>7,125</u>	<u>25,896</u>	<u>-</u>
Totals	<u>\$ 161,395</u>	<u>\$ 28,723</u>	<u>\$ 35,004</u>

General revenues:

Property taxes
State shared revenue
Unrestricted interest income
Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (9,529)		\$ (9,529)
(48,219)		(48,219)
(1)		(1)
(55,345)		(55,345)
<u>(3,345)</u>		<u>(3,345)</u>
(116,439)		(116,439)
<u>-</u>	\$ <u>18,771</u>	<u>18,771</u>
<u>(116,439)</u>	<u>18,771</u>	<u>(97,668)</u>
76,474	-	76,474
27,624	-	27,624
1,729	4,122	5,851
<u>2,246</u>	<u>-</u>	<u>2,246</u>
<u>108,073</u>	<u>4,122</u>	<u>112,195</u>
(8,366)	22,893	14,527
<u>347,900</u>	<u>106,930</u>	<u>454,830</u>
<u>\$ 339,534</u>	<u>\$ 129,823</u>	<u>\$ 469,357</u>

See notes to the financial statements

Village of Casnovia
BALANCE SHEET - governmental funds
June 30, 2008

	<u>Major funds</u>		<u>Nonmajor fund</u>	<u>Total governmental funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	
ASSETS				
Cash	\$ 60,978	\$ 18,540	\$ 2,638	\$ 82,156
Receivables	8,747	5,002	728	14,477
Total assets	<u>\$ 69,725</u>	<u>\$ 23,542</u>	<u>\$ 3,366</u>	<u>\$ 96,633</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 2,001	\$ 13,352	\$ -	\$ 15,353
Due to other funds	-	2,198	549	2,747
Total liabilities	<u>2,001</u>	<u>15,550</u>	<u>549</u>	<u>18,100</u>
Fund balances:				
Unreserved	67,724	7,992		75,716
Unreserved reported in nonmajor special revenue fund	-	-	2,817	2,817
Total fund balances	<u>67,724</u>	<u>7,992</u>	<u>2,817</u>	<u>78,533</u>
Total liabilities and fund balances	<u>\$ 69,725</u>	<u>\$ 23,542</u>	<u>\$ 3,366</u>	<u>\$ 96,633</u>
Fund balances - total governmental funds				\$ 78,533
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 4) are different because:				
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.				294,642
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				(62,500)
The internal service fund is used by management to charge the costs of equipment management to individual funds. The assets and liabilities of the internal service fund are included in <i>governmental activities</i> in the statement of net assets.				<u>28,859</u>
Net assets of <i>governmental activities</i>				<u>\$ 339,534</u>

See notes to the financial statements

Village of Casnovia

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended June 30, 2008

	<u>Major funds</u>		<u>Nonmajor fund</u>	<u>Total</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>governmental funds</u>
REVENUES				
Property taxes	\$ 76,474	\$ -	\$ -	\$ 76,474
Licenses and permits	1,302	-	-	1,302
State grants	27,624	30,557	4,447	62,628
Interest and rentals	2,764	267	3	3,034
Other	2,246	-	-	2,246
Total revenues	<u>110,410</u>	<u>30,824</u>	<u>4,450</u>	<u>145,684</u>
EXPENDITURES				
Legislative	9,529	-	-	9,529
General government	45,505	-	-	45,505
Public safety	523	-	-	523
Public works	19,936	56,367	3,065	79,368
Debt service:				
Principal	7,500	-	-	7,500
Interest	3,345	-	-	3,345
Total expenditures	<u>86,338</u>	<u>56,367</u>	<u>3,065</u>	<u>145,770</u>
NET CHANGE IN FUND BALANCES	24,072	(25,543)	1,385	(86)
FUND BALANCES - BEGINNING	<u>43,652</u>	<u>33,535</u>	<u>1,432</u>	<u>78,619</u>
FUND BALANCES - ENDING	<u>\$ 67,724</u>	<u>\$ 7,992</u>	<u>\$ 2,817</u>	<u>\$ 78,533</u>

Net change in fund balances - total governmental funds \$ (86)

Amounts reported for *governmental activities* in the statement of activities
(page 5) are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the costs of those assets are allocated over their
estimated useful lives as depreciation expense.

Add: capital asset acquisitions	1,917
Deduct: provision for depreciation	(12,044)

Long-term debt:	
Add - principal repayment	7,500

The net expenses of the internal service fund are reported with governmental activities.	(5,653)
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Change in net assets of <i>governmental activities</i>	<u>\$ (8,366)</u>
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See notes to the financial statements

Village of Casnovia**STATEMENT OF NET ASSETS - proprietary funds**

June 30, 2008

	<u><i>Business-type activities</i></u>	<u><i>Governmental activities</i></u>
	<u><i>Enterprise</i></u>	<u><i>Internal</i></u>
	<u><i>Sewer</i></u>	<u><i>service</i></u>
ASSETS		
Current assets:		
Cash	\$ 91,089	\$ 21,811
Receivables	4,493	-
Due from other funds	<u>-</u>	<u>2,747</u>
Total current assets	95,582	24,558
Noncurrent assets - capital assets, net of depreciation	<u>34,241</u>	<u>4,944</u>
Total assets	<u>129,823</u>	<u>29,502</u>
LIABILITIES		
Current liabilities - payables	<u>-</u>	<u>643</u>
NET ASSETS		
Invested in capital assets	34,241	4,944
Unrestricted	<u>95,582</u>	<u>23,915</u>
Total net assets	<u>\$ 129,823</u>	<u>\$ 28,859</u>

See notes to the financial statements

Village of Casnovia**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET****ASSETS - proprietary funds***Year ended June 30, 2008*

	<i>Business-type activities</i>	<i>Governmental activities</i>
	<i>Enterprise</i>	<i>Internal service</i>
	<i>Sewer</i>	
OPERATING REVENUES		
Charges for services:		
Sewer charges	\$ 25,896	\$ -
Equipment rentals	-	5,867
	<u>25,896</u>	<u>5,867</u>
Total operating revenues	<u>25,896</u>	<u>5,867</u>
OPERATING EXPENSES		
Personal services	2,988	1,908
Contractual services	1,472	-
Supplies	548	729
Utilities	369	2,232
Repair and maintenance	-	5,347
Miscellaneous	25	-
Depreciation	<u>1,723</u>	<u>1,524</u>
	<u>7,125</u>	<u>11,740</u>
Total operating expenses	<u>7,125</u>	<u>11,740</u>
OPERATING INCOME (LOSS)	18,771	(5,873)
NONOPERATING REVENUE		
Interest income	<u>4,122</u>	<u>220</u>
CHANGE IN NET ASSETS	22,893	(5,653)
NET ASSETS - BEGINNING	<u>106,930</u>	<u>34,512</u>
NET ASSETS - ENDING	<u>\$ 129,823</u>	<u>\$ 28,859</u>

See notes to the financial statements

Village of Casnovia

STATEMENT OF CASH FLOWS - *proprietary funds*

Year ended June 30, 2008

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Enterprise</u>	<u>Internal</u>
	<u>Sewer</u>	<u>service</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 26,786	\$ -
Receipts from interfund services provided	-	5,081
Payments to suppliers	(4,262)	(7,665)
Payments to employees	<u>(2,988)</u>	<u>(1,908)</u>
Net cash provided by (used in) operating activities	19,536	(4,492)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>4,122</u>	<u>220</u>
NET INCREASE (DECREASE) IN CASH	23,658	(4,272)
CASH - BEGINNING	<u>67,431</u>	<u>26,083</u>
CASH - ENDING	<u><u>\$ 91,089</u></u>	<u><u>\$ 21,811</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 18,771	\$ (5,873)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,723	1,524
Decrease in receivables	890	-
Increase in due from other funds	-	(786)
Increase (decrease) in payables	<u>(1,848)</u>	<u>643</u>
Net cash provided by (used in) operating activities	<u><u>\$ 19,536</u></u>	<u><u>\$ (4,492)</u></u>

See notes to the financial statements

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Casnovia, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

a) Reporting entity:

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Village. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Village exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the Village's major streets.

The Village reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the Village's sewer system.

Additionally, the Village reports an internal service fund that accounts for equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund is charges to customers for services. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand and demand deposits.

ii) Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible.

iii) Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., streets and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the Village as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Village has elected to account for infrastructure assets prospectively, beginning July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment	5 - 20 years
Vehicles	5 years
Sewer systems	10 - 40 years

iv) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

v) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before September 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Village. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Village levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village's general and special revenue funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth the significant budget variance:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	General administration	\$ 1,400	\$ 3,198	\$ (1,798)
	Debt service	Principal	5,000	7,500	(2,500)
Major Street	Public works	Preservation	45,600	49,059	(3,459)

NOTE 3 - CASH:

At June 30, 2008, cash is classified in the accompanying statement of net assets as follows:

Statement of net assets:	
Governmental activities	\$ 103,967
Business-type activities	<u>91,089</u>
Total cash	<u>\$ 195,056</u>

At June 30, 2008, cash consists entirely of deposits with a single financial institution.

Deposits with financial institutions - State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2008, \$68,252 of the Village's bank balances of \$195,221 was exposed to custodial credit risk because it was uninsured. The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At June 30, 2008, the Village's receivables are as follows:

	<u>Accounts</u>	<u>Intergovern- mental</u>	<u>Totals</u>
Governmental funds:			
General	\$ -	\$ 8,747	\$ 8,747
Major Street	-	5,002	5,002
Nonmajor	-	728	728
	<u>-</u>	<u>14,477</u>	<u>14,477</u>
Total governmental funds	<u>\$ -</u>	<u>\$ 14,477</u>	<u>\$ 14,477</u>
Proprietary fund - sewer	<u>\$ 4,493</u>	<u>\$ -</u>	<u>\$ 4,493</u>

All receivables are due within one year and are considered fully collectible.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 386,383	\$ 1,917	\$ -	\$ 388,300
Equipment	42,142	-	-	42,142
Vehicles	27,214	-	-	27,214
Streets	76,632	-	-	76,632
Subtotal	<u>532,371</u>	<u>1,917</u>	<u>-</u>	<u>534,288</u>
Less accumulated depreciation for:				
Buildings	(152,711)	(6,935)	-	(159,646)
Equipment	(35,674)	(1,524)	-	(37,198)
Vehicles	(27,214)	-	-	(27,214)
Streets	(5,535)	(5,109)	-	(10,644)
Subtotal	<u>(221,134)</u>	<u>(13,568)</u>	<u>-</u>	<u>(234,702)</u>
Total governmental activities capital assets, net	<u>\$ 311,237</u>	<u>\$ (11,651)</u>	<u>\$ -</u>	<u>\$ 299,586</u>

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$ 469,447	\$ -	\$ -	\$ 469,447
Buildings	31,684	-	-	31,684
Equipment	<u>43,747</u>	<u>-</u>	<u>-</u>	<u>43,747</u>
Subtotal	<u>544,878</u>	<u>-</u>	<u>-</u>	<u>544,878</u>
Less accumulated depreciation for:				
Sewer system	(441,003)	(803)	-	(441,806)
Buildings	(25,347)	(792)	-	(26,139)
Equipment	<u>(42,564)</u>	<u>(128)</u>	<u>-</u>	<u>(42,692)</u>
Subtotal	<u>(508,914)</u>	<u>(1,723)</u>	<u>-</u>	<u>(510,637)</u>
Total business-type activities capital assets, net	<u>\$ 35,964</u>	<u>\$ (1,723)</u>	<u>\$ -</u>	<u>\$ 34,241</u>

Depreciation expense was charged to the Village's governmental activities' functions as follows:

Governmental activities:	
General government	\$ 6,935
Public works	5,109
Depreciation on internal service fund capital assets	<u>1,524</u>
Total	<u>\$ 13,568</u>

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NOTE PAYABLE:

The noncurrent liability at June 30, 2008, is comprised of the following individual issue:

Governmental activities:

Note payable:

2006 Installment purchase agreement - issued in accordance with Act 99 of the Public Acts of Michigan of 1933; payable in annual installments ranging from \$5,000 to \$10,000, plus interest from 4.55% to 4.95%; final payment due June 2016. \$ 62,500

Noncurrent liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Note payable	<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ (7,500)</u>	<u>\$ 62,500</u>	<u>\$ 7,500</u>

Debt service requirements at June 30, 2008, were as follows:

<u>Year ended June 30:</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 7,500	\$ 2,833
2010	7,500	2,492
2011	7,500	2,151
2012	7,500	1,794
2013	7,500	1,423
2014 - 2016	<u>25,000</u>	<u>1,980</u>
Totals	<u>\$ 62,500</u>	<u>\$ 12,673</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES:

At June 30, 2008, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
Equipment Fund	<u>\$ 2,747</u>	Major Streets	\$ 2,198
		Local Streets	<u>549</u>
		Total	<u>\$ 2,747</u>

The amounts due to the Equipment Fund represent equipment rentals that were paid in July, 2008.

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - RISK MANAGEMENT:

The Village is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and employee medical claims. The risks of loss arising from general liability up to \$2,000,000, property losses, workers' compensation, and employee medical costs are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 9 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2008, follows:

Revenues	\$ 69
Expenses	<u>147</u>
Deficiency of revenues over expenses	<u>\$ (78)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Casnovia**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 63,550	\$ 75,550	\$ 76,474	\$ 924
Licenses and permits	1,623	1,623	1,302	(321)
State grants	30,000	30,000	27,624	(2,376)
Interest and rentals	3,200	3,200	2,764	(436)
Other	<u>2,000</u>	<u>2,000</u>	<u>2,246</u>	<u>246</u>
Total revenues	<u>100,373</u>	<u>112,373</u>	<u>110,410</u>	<u>(1,963)</u>
EXPENDITURES				
Legislative	<u>9,000</u>	<u>13,100</u>	<u>9,529</u>	<u>3,571</u>
General government:				
Professional fees	12,500	13,300	6,889	6,411
Clerk	5,500	5,500	5,328	172
Treasurer	5,500	5,500	5,328	172
Buildings and grounds	18,700	18,800	16,383	2,417
Insurance	8,000	8,400	8,379	21
General administration	<u>1,400</u>	<u>1,400</u>	<u>3,198</u>	<u>(1,798)</u>
Total general government	<u>51,600</u>	<u>52,900</u>	<u>45,505</u>	<u>7,395</u>
Public safety - fire protection	<u>1,000</u>	<u>1,000</u>	<u>523</u>	<u>477</u>
Public works:				
Engineering	10,000	10,000	1,114	8,886
Street lighting	6,000	7,000	6,654	346
Sanitation	<u>12,000</u>	<u>13,500</u>	<u>12,168</u>	<u>1,332</u>
Total public works	<u>28,000</u>	<u>30,500</u>	<u>19,936</u>	<u>10,564</u>
Debt service:				
Principal	5,000	5,000	7,500	(2,500)
Interest	<u>3,500</u>	<u>3,500</u>	<u>3,345</u>	<u>155</u>
Total debt service	<u>8,500</u>	<u>8,500</u>	<u>10,845</u>	<u>(2,345)</u>
Total expenditures	<u>98,100</u>	<u>106,000</u>	<u>86,338</u>	<u>19,662</u>

Village of Casnovia

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2008

	<u><i>Original budget</i></u>	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
NET CHANGE IN FUND BALANCES	\$ 2,273	\$ 6,373	\$ 24,072	\$ 17,699
FUND BALANCES - BEGINNING	<u>43,652</u>	<u>43,652</u>	<u>43,652</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 45,925</u>	<u>\$ 50,025</u>	<u>\$ 67,724</u>	<u>\$ 17,699</u>

Village of Casnovia**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 32,000	\$ 32,000	\$ 30,557	\$ (1,443)
Interest income	<u>100</u>	<u>100</u>	<u>267</u>	<u>167</u>
Total revenues	<u>32,100</u>	<u>32,100</u>	<u>30,824</u>	<u>(1,276)</u>
EXPENDITURES				
Public works:				
Preservation	18,000	45,600	49,059	(3,459)
Traffic services	1,300	1,400	198	1,202
Winter maintenance	9,500	11,000	5,768	5,232
Administration	<u>1,500</u>	<u>1,500</u>	<u>1,342</u>	<u>158</u>
Total expenditures	<u>30,300</u>	<u>59,500</u>	<u>56,367</u>	<u>3,133</u>
NET CHANGE IN FUND BALANCES	1,800	(27,400)	(25,543)	1,857
FUND BALANCES - BEGINNING	<u>33,535</u>	<u>33,535</u>	<u>33,535</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 35,335</u>	<u>\$ 6,135</u>	<u>\$ 7,992</u>	<u>\$ 1,857</u>

October 15, 2008

To the Village Council
Village of Casnovia

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Village of Casnovia for the year ended June 30, 2008, and have issued our report thereon dated October 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 9, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Casnovia are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Village of Casnovia during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Village's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



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The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended June 30, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Casnovia's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Village of Casnovia as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Casnovia's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Village has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, identifications of major funds, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Village has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Village Council of the Village of Casnovia and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.